

# EXPLORING THE BUSINESS STRATEGY OF MALAYSIAN EXPORTING MANUFACTURING FIRMS

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## Abstrak

Business strategy has attracted much attention in the literature over the years. Despite the increased knowledge and attention on business strategy, the literature review suggests few studies have attempted to examine business strategy in the context of Malaysian exporting manufacturing firms. The purpose of this study is to explore this issue. More specifically, this study empirically explore the business strategy as found in 160 of exporting manufacturing firms. The findings of the study provide empirical evidence that suggests the exporting manufacturing firms adopted the following business strategies; differentiation focus strategy, marketing differentiation strategy, product differentiation strategy, service differentiation strategy, and innovative differentiation strategy.

Key words: Exploring, business strategy, and manufacturing firms,

## A. Introduction

Strategic management emphasizes on the need for organizations to formulate and implement effective business strategies. Furthermore, the strategic management literature stresses on the need for different firms in different environment to adopt different types of business strategies. Past studies have reported firms that used a particular type of business strategy in a certain environment achieved better performance outcomes.<sup>1</sup>

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<sup>1</sup>Hofer, C.W. & Schendel, D.E., *Strategy Formulation: Analytical Concepts*, (St. Paul: West Publishing, Wood, 1978), D. R. Jr. and Laforge, R. L., *The impact of comprehensive planning on*

Over the years, the general notion that effective business strategy can help to improve organizational performance has attracted much thought, attention and research emphasis on business strategy. In the aggregate, the review of past studies on business strategy indicates that previous research has mainly focus on manufacturing firms in developed countries. The review of the business literature in Malaysia, however, reveals business strategy in the local context has not received much research attention, particularly in the exporting manufacturing firms.

In Malaysia, despite the important role of exporting manufacturing firms, the increased knowledge in strategic management, and the importance of business strategy, little is known about the business strategy of the local exporting manufacturing firms. The lack of information and knowledge on business strategy adopted in Malaysian exporting manufacturing firms suggests the need for more attention and research in this area.

Given the importance of exporting manufacturing firms in the Malaysian economy and the lack of information concerning their business strategy, more focused research needs to be undertaken. The purpose of this exploratory study is to examine the business strategy of local exporting manufacturing firms. More specifically, the present study attempted to identify and provide some insights into the business strategy adopted by these firms.

## B. The Literature

There appears to be much agreement in the strategic management literature on the important role of strategy in organisations. Business strategy has been characterized as the way in which a firm decides to compete, pursue, achieve and maintain its competitive advantage in an industry.<sup>2</sup>

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financial performance. *Academy of Management Journal*, 1979, Vol.22, No.3: 516-526, Lee, J., A comparative study of the relationship between strategy and business performance: Industrialised countries and newly-industrialising countries. Published PhD Dissertation. University of Mississippi, 1988, Rue, L. W. and Holland, P. G., *Strategic Management: Concepts and Experience*, 2<sup>nd</sup> ed. (New York: McGraw Hill, 1989), and Kotha, S & Nair A., Strategy and environment as determinants of performance: Evidence from the Japanese machine tool industry. *Strategic Management Journal*, 1995, Vol.16, No.7: 497-518.

<sup>2</sup>Walker O. C & Ruekert, R. W., Marketing's role in the implementation of business strategies: A critical review and conceptual framework. *Journal of Marketing*, 1987, 51:15-33, Rue, L. W. and Holland, P. G., *op. cit.*, and Varadarajan, P. R. & Clark, T., Delineating the scope of corporate, business and marketing strategy. *Journal of Business Research* 31, 1994, 93-105.

Porter<sup>3</sup> pointed out that a firm can gain its competitive advantage by producing value to its customers. According to Porter, a firm can gain its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors. Porter concluded that business strategy based on these activities are known as generic strategies. Among the three generic business strategies are; low cost, differentiation and focus (niche). In a low cost strategy, the firm attempts to reduce cost and increase profit as well as sales by using economics of scales, scope and technology. In a differentiation strategy, the firm focusd on developing ways to make products appear unique and different. Finally, in a niche (focus ) strategy, the firm focuses on product development and marketing efforts in a particular market segment that the firm has a cost or differentiation advantage.

The study by Namiki<sup>4</sup> found exporting firms generally adopt four patterns of competitive strategy, namely; marketing differentiation strategy, differentiation focus strategy, innovation differentiation strategy, and product-oriented strategy. According to the study, marketing differentiation strategy is based on competitive pricing, brand development, control over distribution, advertising and innovation in terms of marketing techniques. Differentiation focus strategy relied on the ability to offer specialized products to specific customer groups. Innovation differentiation strategy focused on the ability of the firm to offer technologically superiority of products and new product development. Product-oriented strategy stressed on the quality of the products and high levels of services provided to customers.

Further studies by De Noble, Castaldi, and Moliver<sup>5</sup> and Cavusgil and Knight<sup>6</sup> indicated exporting firms compete by focusing on business opportunities and market research, promotion of the business and prod-

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<sup>3</sup>Porter, M. E., *Competitive Strategy*. (New York: The Free Press, 1980).

<sup>4</sup>Namiki, N., Export strategy for small business. *Journal of Small Business Management* 26, 1988, April, 32-37.

<sup>5</sup>De Noble, A. F, Castaldi, R. M. & Moliver, D. M., Export intermediaries: Small business perceptions of services and performance. *Journal of Small Business Management* 27 (2), 1989, : 33-44.

<sup>6</sup>Cavusgil, T. & Knight J., Firm and management characteristics as discriminators of export marketing activity. *Journal of Business Research*, 15, 1997, 221-235.

ucts, selection of and collaboration with agents and distributors, development of local contacts and provision of services after sales, pricing, sales force management, credit risk analysis, knowledge of business practices, awareness of the competition, and product research, development, and adaptation.

In a more recent study, Lages and Montgomery<sup>7</sup> found product strategy, promotion strategy, price strategy, and distribution strategy as four common strategies adopted by exporting firms. In product strategy, the firm stressed on differentiating the products offered in the domestic market and the products sold in the export markets in terms of brand name, design, labeling, variety of main exporting product line, and quality. The promotion strategy focused on adjusting the domestic promotion program towards the export market in areas such as advertising idea/ theme, media channels for advertising, promotion objectives, budget for promotion, public relations emphasis, and direct marketing/ mailing. In pricing strategy, the firm used concession of credit, price discount policy, and margins to offer products at different prices across national boundaries. Distribution strategy involved selecting the distribution system, transportation, budget for distribution, and distribution network to the export market.

In developing six business strategies (harvest, build, cashout, niche, climber and continuity) for businesses in consumer markets and four (low commitment, growth, maintenance and niche) in industrial markets, the earlier study by Galbraith and Schendel<sup>8</sup> concluded that only the build strategy type (consumer), growth (industrial) and niche (both) appear appropriate.

However, in the context of smaller firms, Giglierano<sup>9</sup> noted effective business strategies depended on the type of business as well as the products they developed. Giglierano claimed that smaller firms that adopted particular business strategies seem to achieve better performance.

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<sup>7</sup>Lages, P. & Montgomery, C.A., Product- market diversification and market power. *Academy of Management Journal*, 28 2004, (4), 789-798.

<sup>8</sup>Galbraith, C. & Schendel, D., An empirical analysis of strategy types. *Strategic Management Journal*. 1983, Vol.4: 153-173.

<sup>9</sup>Giglierano, J.J., *The Relationship Between Founders' Prior Experience, Strategy Making Style, Strategy And Performance In New Technical Firms*. Published PhD Dissertation. The Ohio State University, 1987.

The study conducted by Dollinger and Golden<sup>10</sup> which examined four collective strategies (confederate, conjugate, agglomerate and organic) found agglomerate and organic collective strategies to be the most frequently employed strategies among the smaller businesses.

In another attempt to study the strategic behaviour of small manufacturing firms, Kim and Chooi<sup>11</sup> discovered innovative, efficient and versatile as the three successful strategy types. Nevertheless, in selecting the choice of strategic focus, the researchers of the study stressed the need for managers in smaller firms to not only consider the industrial situations, but also the capabilities of their organizations.

## **C. Research Methodology**

### **1. Sampling frame and procedure**

The sample firms of this study consisted of selected Malaysian exporting manufacturing firms. Through the 2003 Federation of Malaysian Manufacturers (FFM) Directory of Malaysian Manufacturers, 300 exporting firms were identified. The data for the study were collected by using a structured questionnaire. Structured questionnaires were mailed to the senior managers of the selected 300 firms. Out of the total number of 300 questionnaires mailed, 160 usable questionnaires were returned, yielding a response rate of 53.3%.

### **2. Questionnaire**

The structured questionnaire adopted in this study consisted of three sections. The first and second sections of the questionnaire, which consisted of 21 items, were used to obtain the general information concerning the background of the respondents (9 items) and the characteristics of exporting SMEs (12 items). The 22 items in section three of the questionnaire which were adapted from earlier studies served as a basis for querying the exporting strategies adopted by the exporting manufacturing firms. The respondents were asked to rate the importance of the strategies on a three-point scale as follows: (1) very important; (2) not important; and (3) not relevant. The questionnaire was tested prior

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<sup>10</sup>Dollinger, M. J. & Golden, P. A., Interorganisational and collective strategies in small firms: Environmental effects and performance. *Journal of Management*. Vol.18, No.4, 1992 : 495-715.

<sup>11</sup>Kim, Y. & Chooi, Y., Strategic types and performance of small firms in Korea. *International Small Business Journal*. Vol.13, 1994 No.1: 13-23.

to posting to the respondents. Table 1 presents coefficient alpha scores of the items for measuring the strategy types.

**Table 1 Measures and Reliability Scores**

Business Strategy	No. of Item	Alpha ( $\mu$ )
1. Differentiation Focus (BS1-BS3)	3	0.79
2. Marketing Differentiation (BS4-BS12)	9	0.88
3. Product Differentiation (BS13-BS16)	4	0.82
4. Service Differentiation (BS17-BS20)	4	0.82
5. Innovative Differentiation (BS21-BS20)	2	0.65

### 3. Profile of the respondents

Table 2 exhibits the profile of the respondents that participated in this study. Of the 160 respondents surveyed, 84 (52.5%) were managers, followed by others such as marketing and export executives 66 (41.2%), eight (5%) were owners and Chief Executive Officers and 2 (1.3%) were owners and managers.

Chinese constituted majority of the respondents (57.5%), followed by Indians (44%), Malays (11.3%) and other races such as Eurasian (6%). Most of the respondents were male and married. The age of the respondents ranged from 21 years old to more than 40 years old.

In terms of education, 128 (80%) of the respondents had bachelor degree, 14 (8.8%) had a master's degree, 10 (6.2%) had a diploma, and eight (5%) had only a secondary school certificate. Most of the respondents had been with their companies for more than a year. As for prior work experience, majority of the respondents (76.3%) have less than 10 years of experience.

**Table 2: Profile of the Respondents**

		N	Percentage
Position	Owner and CEO	8	5.0
	Owner and Manager	2	1.3
	Manager but Not Owner	84	52.5
	Others	66	41.2
Total		160	100.0

Number of years in present company	1-3 years	62	38.7
	4-6 years	12	7.5
	7-9 years	30	18.8
	10-12 years	24	15.0
	13 and Above	32	20.0
Total		160	100.0
Age	21 – 25 years	8	5.0
	26 – 30 years	44	27.5
	31 – 35 years	22	13.7
	36 – 40 years	26	16.3
	40 and above	60	37.5
Total		160	100.0
Race	Malay	18	11.3
	Chinese	92	57.5
	Indian	44	27.5
	Others	6	3.7
Total		160	100.0
Gender	Male	146	91.3
	Female	14	8.7
Total		160	100.0
Marital Status	Married	106	66.3
	Never Married	54	33.7
Total		160	100.0
Years of Experience Before Joining Present Company	1-5 years	66	41.3
	6-10 years	56	35.0
	11-15 years	10	6.2
	16-20 years	12	7.5
	More than 20 years	16	10.0
Total		160	100.0
Level of Education	School Certification	8	5.0
	Diploma	10	6.2
	Bachelor Degree	128	80.0
	Master Degree	14	8.8
Total		160	100.0

#### 4. Distribution of sample firms by states

Table 3 lists the distribution of the responding firms by states. As shown in Table 3, most of the exporting manufacturing companies were operating in the states of Selangor, Penang, Perak, Kedah, Federal Territory, Johor and Negeri Sembilan.

**Table 3: Sample Firms by States**

States	N	Percentage
Selangor	29	18.1
Penang	24	15.0
Perak	21	13.1
Kedah	20	12.5
Federal Territory	17	10.6
Johor	16	10.0
Negeri Sembilan	10	6.3
Pahang	8	5.0
Melaka	6	3.8
Terengganu	5	3.1
Kelantan	3	1.9
Perlis	1	0.6
Total	160	100.0

#### 5. Characteristics of the sample firms

Table 4 displays the characteristics of the exporting manufacturing that participated in the study. Out of the total number of 160 companies, 100 were private limited companies, 34 were public limited companies, 16 companies were partnerships, and the remaining 10 companies were sole proprietors. In terms of employment, 98 companies (61.3%) had more than 300 employees working for them, 22 companies (13.8%) employed between 101-200 employees, 18 companies (11.2%) employed between 31-100 employees, 12 companies (7.5%) employed between 201-300 employees, and the remaining 10 companies (6.2%) had less than 30 employees.



The 160 companies in this study represented various different industries. Of the total 160 companies, 68 companies (42.5%) were involved in electrical and electronic products industry, 32 companies (20%) represented the food and beverage industry, 14 companies (8.8%) operated in the chemical industry, and the remaining 46 companies represented the other industries such as building and construction, furniture and fixtures, hardware and machinery, leather and footwear, pharmaceuticals, plastic products, and rubber products.

Most of the companies had been in operations for more than 10 years. Of the 160 companies, 88 companies (55%) had been in business for more than 20 years. As for exporting experience, 112 respondents (70%) reported that their companies had been involved in exporting for more than 10 years.

Furthermore, out of the 160 firms, 118 companies (73.7%) indicated that their companies have been exporting to more than six different countries (details of exporting countries shown in Table 5). In terms of the total sales for the year 2004, 120 companies (75%) reported having sales of more than RM20 million.

**Table 4: Characteristics of the Sample Firms**

		N	Percentage
Legal Form of Business	Sole proprietor	10	6.2
	Partnership	16	10.0
	Private Limited	100	62.5
	Public Limited	34	21.3
Total		160	100.0
Employment	1-30 employees	10	6.2
	31-100 employees	18	11.2
	101-200 employees	22	13.8
	201-300 employees	12	7.5
	More than 300 employees	98	61.3
Total		160	100.0

Age of Company	6 – 10 years	12	7.5
	11 – 15 years	52	32.5
	16 – 20 years	8	5.0
	21 years and more	88	55.0
Total		160	100.0
Years of Exporting Experience	1 – 3 years	4	2.5
	4 – 6 years	24	15
	7 – 10 years	20	12.5
	11 years and over	112	70
Total		160	100.0
Numbers of Exporting Countries	1	12	7.5
	2	4	2.5
	3	14	8.8
	4	8	5.0
	5	4	2.5
	6 and over	118	73.7
Total		160	100.0
Company's Total Sales(Year 2004)	Less than RM500,000	1	0.6
	RM500,001- RM5,000,000	11	6.9
	RM5,000,001- RM10,000,000	16	10.0
	RM10,000,001- RM15,000,000	3	1.9
	RM15,000,001- RM20,000,000	9	5.6
	More than RM20,000,000	120	75.0
Total		160	100.0
Net Profit before tax (Year 2004)	Less than RM10,000	2	1.3
	RM10,001-RM100,000	4	2.5
	RM100,001-RM200,000	20	12.5
	RM200,001-RM300,000	6	3.7
	RM300,001-RM400,000	8	5.0
	RM400,001-RM500,000	6	3.7
	More than RM500,000	114	71.3
Total		160	100.0

## 6. Exporting destinations

The information obtained from the respondents indicated that their companies exported to at least 16 countries. Table 5 lists the 16 countries. As shown in Table 5, the five important exporting destinations for the 160 firms in this study were Singapore (21.9%), Brunei (18.1%), Thailand (15%), Australia (10.0%), United States of America (10.0%), and Taiwan (6.3%). However, as a whole, the figures in Table 5 indicate that majority of the responding firms exported to countries in the Asian region.

**Table 5. Exporting Destinations**

Countries	N	Percentage
Singapore	35	21.9
Brunei	29	18.1
Thailand	24	15.0
Australia	16	10.0
United States of America	16	10.0
Taiwan	10	6.3
Sweden	5	3.1
Vietnam	5	3.1
Philippines	4	2.5
New Zealand	3	1.9
Indonesia	3	1.9
Hong Kong	3	1.9
France	3	1.9
Finland	1	0.6
China	1	0.6
United Kingdom	1	0.6
United Arab Emirates	1	0.6
Total	160	100.0

### 7. Business strategy as emphasized by the exporting manufacturing firms

As far as the business strategy of the exporting manufacturing firms is concerned, the information obtained from the responding firms in general suggest that the firms in this study emphasized on most aspects of the five business strategy types.

The results in Table 6 indicate that majority of the respondents found the five business strategy types to be important to their firms. The percentage of the responses for the 22 dimensions of the five business strategy types ranged from 52.5% to 93.7%. These results suggest a general agreement on the importance of the five business strategy types among the exporting manufacturing firms in this study.

**Table 6. Business Strategy as Emphasized by the Sample Firms**

	Important N(%)	Not Important N(%)	Not Relevant N(%)
<b>A) Differentiation Focus</b>			
1. New or Specialty Products Are Marketed to Particular Groups of Customers.	100(62.5)	46(28.7)	14(8.8)
2. Providing a Broad Range of Products and Services	130(81.3)	20(12.5)	10(6.3)
3. New Product Development.	124(77.5)	30(18.7)	6(3.8)
<b>B) Marketing Differentiation</b>			
1. Competitive Pricing	144(90.0)	8(5.0)	8(5.0)
2. Strong Control Over Distribution	120(75.0)	28(17.5)	12(7.5)
3. Improving Advertising and Promotion.	126(78.8)	26(16.3)	8(5.0)
4. Creating Brand Identification in the Export Venture Market.	130(81.2)	20(12.5)	10(6.3)

5. Adopting Innovative Marketing Techniques and Methods	118(73.7)	26(16.3)	16(10.0)
6. Market Research to Identify New Products	112(70.0)	36(22.5)	12(7.5)
7. Personal Selling	84(52.5)	40(25.0)	36(22.5)
8. Penetrate Established Markets	126(78.7)	26(16.3)	8(5.0)
9. Develop New Market for the Product	108(67.5)	32(20.0)	20(12.5)
C) Product Differentiation			
1. Product Quality	150(93.7)	2(1.3)	8(5.0)
2. Packaging	124(77.5)	28(17.5)	8(5.0)
3. Design and Style	118(73.7)	18(11.3)	24(15.0)
4. Product Unique	104(65.0)	20(12.5)	36(22.5)
D) Service Differentiation			
1. Maintaining Quick Product Delivery (Distribution)	124(77.5)	22(13.8)	14(8.7)
2. Maintaining Prompt Response To Customers' Orders	148(92.5)	5(3.1)	7(4.4)
3. Offering Extensive Customer Service	138(86.3)	18(11.3)	4(2.5)
4. Personal Contacts with Overseas Distributors	120(75.0)	30(18.7)	10(6.3)
E) Innovative Differentiation			
1. Technological Superiority of Products and New Product Development.	116(72.5)	40(25.0)	4(2.5)
2. Use of Advanced Communication Technologies	136(85.0)	20(12.5)	4(2.5)

## D. Discussion and Conclusion

This study initiated an attempted to explore the business strategy of Malaysian exporting manufacturing firms. More specifically, the study attempted to examine the business strategy as adopted by 160 exporting manufacturing firms.

The results of the study in general suggest that in majority of the cases, there was a broad agreement concerning the importance of the five business strategy types among the exporting manufacturing firms in the study. This finding appear to be consistent with the earlier studies conducted by Namiki.<sup>12</sup> According to both the studies, differentiation focus strategy, marketing differentiation strategy, product differentiation strategy, and innovation differentiation strategy are among the most common business strategy types adopted by exporting manufacturing firms.

As indicated earlier, despite the importance of the five business strategy types to the exporting manufacturing firms, empirical research in this area remains limited, particularly in the local context. This research suggests opportunities for researchers interested to further explore the business strategy of exporting firms.

Although the results of this study suggest the importance of the five business strategies, this conclusion should be regarded as only suggestive since it is based on one study. More empirical research is therefore needed and will be particularly useful in providing more empirical evidence to support the notion that other business strategy not included in this study may also be useful to the exporting firms.

Examining several extensions of the present work present a good starting point for future research. Certainly, the other types of business strategy which this study did not address, would present as research opportunities to be investigated further. For instance, it is important to investigate business strategy adopted in other business segments.

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<sup>12</sup>Namiki, N., *op. cit.*

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